



# Sales Validation And Ratio Study Review

## Department of Local Government Finance

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# Presentation Outline

- Sales Validation
  - Sales window
  - Sales validation
  - Foreclosures/Distressed Sales
- Ratio Study Review
  - Sales Data Compliance
  - Number of Sales Used
  - Sales Reconciliation
  - Excluding sales



# Sales Window

- Time period that ratio study sales come from.
- Must use:
  - One year of sales before valuation date.
  - For 2013: March 1, 2012 - March 1, 2013.
- May use:
  - Up to 5 years before valuation date.
  - For 2013: March 1, 2008 – March 1, 2013.
- If using more than one year, must adjust sale price if necessary.



# Sales Validation

- Good sales validation helps with:
  - Setting values (calibration)
  - Ratio study approval
  - Appeals
- Review each sale **twice**:
  - Initial check: when sale comes into office.
  - Second check: within 60 days of sale.
- Keep log of changes made during review:
  - Sales marked valid but excluded.
  - Sales marked invalid but included.



# Sales Validation

- Initial Check based on sales disclosure form (SDF).
  - Sales data is accurate and complete.
  - sale is of a type generally considered invalid.
  - Sale has special conditions needing review.
- Review for accuracy and completeness:
  - Important fields have information (sale price, date, etc.)
  - Sale price is reasonable for property
  - Other checks as needed.



# Sales Validation

- Sales generally considered invalid:
  - Sales involving:
    - Government agencies
    - Charitable, religious, or educational institutions
    - Financial institutions as buyer or seller
  - Sales between relatives or corporate affiliates
  - Estate/Trust sales
  - Compulsory sales
  - Owners have partial interest.
  - Sales of doubtful title (quitclaim, etc.)



# Sales Validation

- Sales with special conditions.
  - Personal property included
    - Must include personal property value.
    - Exclude if this value is large relative to sale price.
  - Land contract
    - Should be short-term (2 years or less).
    - Contract must be reviewed.
    - Adjust for atypical financing.
  - Auctions
    - Well-advertised and well-attended.
    - Seller must have reserve/right of refusal.



# Sales Validation

- Second review: within 60 days of sale.
  - Verify property characteristics at time of sale.
    - Field visit
    - Don't use sale if characteristics have substantially changed.
  - Review sales with special conditions.
  - Check sample of sales for accuracy.
    - Concentrate on sales likely to be valid.
    - Review every 5<sup>th</sup>, 10<sup>th</sup>, etc. sale.
    - Verify sales disclosure data with phone interview.





# Foreclosure/Distressed Sales

- Defined:
  - “A legal proceeding to terminate a mortgagor’s interest in property, instituted by the lender (the mortgagee) either to gain title or to force a sale in order to satisfy the unpaid debt secured by the property (IAAO 2009).”
- Key questions to ask:
  - Is the sale price typical of other properties?
  - Are there a large number of these sales relative to other sales in the area?



# Foreclosure/Distressed Sales

- The Indiana foreclosure process:
  - Borrower fails to make required mortgage payments.
  - Bank places borrower in default.
  - Property is legally transferred to bank (foreclosure).
  - Bank resells property with realtor or at auction.
- Property can be sold during any one of these steps:
  - Pre-foreclosure sale
  - Foreclosure sale
  - Post-foreclosure sale



# Foreclosure/Distressed Sales

- Pre-foreclosure sales: Made by property owner in default to avoid foreclosure.
  - Regular third-party sale
    - Sale by owner to third-party for amount owed or more.
  - Short sale
    - Sales by owner to third party for less than amount owed
    - Requires bank approval.
- In both cases:
  - Seller is pressured by threat of foreclosure.
  - Buyer often has bargaining power not typical of market.



# Foreclosure/Distressed Sales

- Foreclosure “sale”
  - Legal transfer of deed from owner to bank to avoid foreclosure.
  - Sale price will be outstanding loan amount.
- Deed in lieu
  - Surrender of deed from owner to bank to avoid foreclosure.
  - Essentially a foreclosure.
- These are not valid sales
  - Sale is under duress
  - Sale price based solely on outstanding loan amount



# Foreclosure/Distressed Sales

- Post-Foreclosure sales: sheriff's sales
  - Sale by county sheriff of foreclosed property at public auction
  - Bank always bids minimum to protect investment
  - May sell to bank or third-party
- Guidelines for validation
  - If sold to bank, don't use
  - If sold to third-party, treat as normal sale at auction
    - Auction well-advertised and attended
    - Only use if sale price is comparable to other properties.



# Foreclosure/Distressed Sales

- Post-Foreclosure sales: re-sales
  - Sale of foreclosed property purchased at auction
  - May be sold by bank or by third-party
  - May sell several properties as lots or at auction
- Guidelines for Validation
  - Sales of lots / auctions are invalid.
  - Other sales by bank should only be used if sale price is comparable.
  - Other sales by third-party may be used if otherwise arm's length transaction.



# Questions?



# Presentation Outline

- Ratio Study Review
  - Sales Data Compliance
  - Number of Sales Used
  - Sales Reconciliation
  - Excluding sales





# Sales Data Compliance

- Review county sales data for the year
  - Data Division review.
  - Three files:
    - SALECONTAC
    - SALEDISC
    - SALEPARCEL
- Accurate sales data is essential for accurate assessments.
- Accurate sales data results in fast reviews and on-time billing.



# Sales Data Compliance

- Reasons for compliance checks?
  - Ensure we have all sales for calendar year.
  - Ensure we have all critical data needed to evaluate ratio study.
- ***"The findings of a ratio study can only be as accurate as data used in the study."*** (IAAO Standard on Ratio Studies – 2007, pgs. 8 – 9).
- ***"Quality control techniques can be used to measure market activity or to determine whether an assessor is fully reporting sales information."*** (IAAO Standard on Ratio Studies – 2007, pg. 30).



# Sales Data Compliance

- Major sales data review checks:
  - Nbr. of non-exempt sales received matches number expected.
  - County auditor remits \$5 per non-exempt sales disclosure to Auditor of State.
  - Compare number of non-exempt sales received to this amount: amount should be 5 times number of sales.
  - Duplicates excluded.
  - 10% tolerance (90 – 110%) allowed.
  - Requires county auditor to keep accurate records.



# Sales Data Compliance

- Major sales data review checks:
  - Check critical data fields on all non-exempt sales:
    - Parcel Number
    - Sale Date
    - Sale Price
    - Taxing District
    - Buyer / Seller Name
  - At least 98% of records must have all critical data.
  - Duplicates excluded from total.



# Sales Data Compliance

- Additional sales date review checks:
  - Excessive duplicate records.
  - Excessive number of splits.
  - Match parcel numbers with PARCEL data.
- Number of valid & exempt sales:
  - Number of valid, non-exempt sales
  - Number of exempt sales
- Number of sales with special conditions.
- Analyst uses judgment on whether more review is needed.



# Sales Data Compliance

- Sales Data Compliance:
  - Sales data has passed the checks just described.
  - Letter of compliance sent to county.
  - Copy of approved sales data sent to county.
- Assessment Division uses this data for:
  - Number of sales used
  - Sales reconciliation



# Number of Sales Used

- Assessment checks whether enough sales were used in ratio study.
- Check uses prior year sales data:
  - In 2013, will use 2012 sales data
  - Uses additional sales data if necessary.
- Baseline: Number of sales in sales file:
  - Non-exempt
  - Sales price > 0



# Number of Sales Used

- Check done for:
  - Each type of property
  - Each township
  - If townships are grouped, check is done for group
- Number of sales used in study compared to:
  - Number of non-exempt sales
  - Number of valid sales
- Analyst uses judgment based on:
  - These comparisons
  - Type of property
  - Historical sales turnover for county



Microsoft Office  
Excel Worksheet



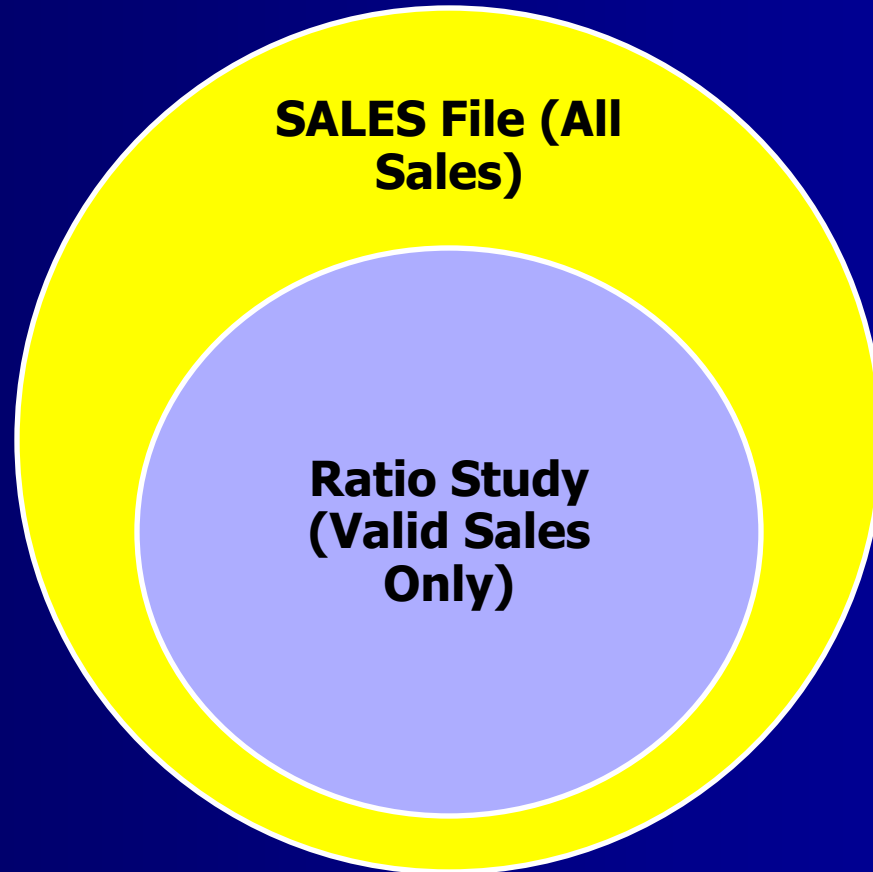


# Sales Reconciliation

- Compares data in SALES file to Ratio Study
  - SALES File
    - All sales in a year (Valid for Trending and Invalid).
    - Reviewed by Data Division.
    - Three text files: SALECONTAC, etc.
  - Ratio Study
    - Only Valid for Trending Sales.
    - Reviewed by Assessment Division.
    - One Excel spreadsheet.



# Sales Reconciliation





# Sales Reconciliation

- Sales matched by Sales Disclosure Form ID (SDFID).
- Unique number assigned to each sale in the state.
- Format: CXX-XXXX-XXXXXXX
  - CXX: County number.
  - XXXX: County year.
  - XXXXXXX Unique number.
- Example: C23-2012-0000001
- Should be included in SALES file and Ratio study



# Sales Reconciliation

- Sale is included if:
  - Valid
  - In sales window used
  - Sale price > 0
  - No special circumstances flagged (i.e. exempt, land contract)
- Must explain sales in SALES file that:
  - Meet this criteria, **AND**
  - Are not in the ratio study



Microsoft Office  
Excel Worksheet



# Excluding Sales

- May exclude sales that are not arm's length.
- if sale is not marked Valid in SALES file:
  - No explanation needed.
- Explanation needed otherwise.
- Sales needing explanation listed in reconciliation spreadsheet sent to county.



# Excluding Sales

- Explanations should be specific:
  - Unacceptable: "Excluded after further review."
  - Acceptable: "Buyer/seller relationship."
- Include separate explanations for each general reason that property was excluded.
  - Write this:
    - Property 1            "Relationship"
    - Property 2            "New construction"
  - Instead of this:
    - Property 1            "Relationship or new construction"
    - Property 2            "Relationship or new construction"



# Excluding Sales

- Explanations do not need to be detailed
  - “New construction” is fine
  - “Added wooden deck, new roof” is not necessary
- Supporting evidence should be available, but does not need to be submitted.
- Explanations based on sale price:
  - “Sales price not comparable”
  - “Outlier sale”
  - “Sale price not typical of market”
- Acceptable if used sparingly
- Department may require more information



# Excluding Sales

- You may include explanations with your ratio study to speed up the process.
- In this case, sales that you explain will be considered reconciled.



Microsoft Office  
Excel Worksheet





# Questions?



# Contact The Department

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